

TO: Mayor and Council Members
FROM: Mark Tester, Director, Austin Convention Center Department
DATE: October 14, 2015
RE: Austin Convention Center Long-Range Master Plan

*Carolyn Keffner
on behalf of
Mark Tester*

In follow up to our presentation of our draft Long-Range Master Plan (Plan) at your October 13, 2015 Council work session, please find enclosed additional responsive information based on your comments and questions during our presentation. We hope you find the information useful.

The presentation at the work session was in advance of the item on the October 15, 2015 Council agenda, seeking support and adoption of the Plan as a long-term planning vehicle. To that end, if you need additional information from us, or would like us to meet with you to discuss this information, please don't hesitate to contact me at 512-404-4040.

xc: Marc A. Ott, City Manager
Assistant City Managers



1. A. What are the additional/future revenue projections based on expansion?

Volume II of the consultant's Long-Range Master Plan (provided as backup to item 48 on Council's October 15, 2015 agenda) is the in-depth economic analysis. Pages 90-93 of Volume II show the projected hotel revenue for each scenario considered by the consultants. Page 95 shows the projected Hotel Occupancy Tax revenue for each scenario, and Page 100 shows the projected operating revenue and expenses under each scenario. In year 2031 (the consultant's projected year of stabilization), it is estimated that the recommended expansion will bring \$336 million more in hotel revenue, and \$17.7 million more in Convention Center revenue (including Hotel Occupancy Tax) versus leaving the Convention Center as-is.

B. What is the projected General Fund revenue impact related to the expansion?

Assuming a correlation between hotel revenue (discussed in item above) and general fund revenue (mainly sales tax) generated by the visitor industry, using the consultant's analysis, combined with the State's data used to estimate the convention and hospitality industry contribution to the City's general fund (via primarily sales tax from visitor spending), by the year of stabilization, it is estimated that the City will see an annual net increase of \$9.6 million in General Fund revenue if the recommended expansion is completed, versus leaving the Austin Convention Center as-is.

See details of the calculation in **Appendix A** at the end of this Attachment.

2. What is hotel cost/night in Austin compared to other cities?

The Austin Convention and Visitors Bureau provided the information below regarding the occupancy rates, average daily rates, and hotel occupancy tax rates for Austin and other cities.

Occupancy (OCC)/ Average Daily Rate (ADR)/Hotel Occupancy Tax (HOT) Rates

Destination	Total Hotel Rms	2014 Occ**	2014 ADR**	HOT Rate	Total Rate
New Orleans, LA	38431	69.0	\$144.81	13.0%	\$163.64
San Diego, CA	60423	74.6	\$142.58	12.5%	\$160.40
Seattle, WA	42504	75.7	\$137.45	15.6%	\$158.90
Austin, TX	33371	72.3	\$127.33	15.0%	\$146.43
Nashville, TN	38398	72.1	\$116.86	15.0%	\$134.39
Portland, OR	26688	72.2	\$115.00	14.5%	\$131.68
Baltimore, MD	33510	67.6	\$112.92	15.5%	\$130.43
Denver, CO	42531	75.4	\$112.60	14.75%	\$129.21
Phoenix, AZ	61662	63.1	\$114.05	12.27%	\$128.04
Houston, TX	77957	71.7	\$106.91	17.0%	\$125.09
San Antonio, TX	45023	64.6	\$104.64	16.75%	\$122.17
Ft Worth-Arlington, TX	31663	64.1	\$95.70	15.0%	\$110.06
Dallas, TX	79326	67.7	\$93.58	15.0%	\$107.62
Charlotte, NC-SC	33320	68.9	\$93.31	15.25%	\$107.53
Atlanta, GA	94160	68.2	\$91.85	15.0%	\$105.63
Indianapolis, IN	31040	64.6	\$94.37	10.0%	\$103.81

Overall Average Rate \$129.06

***2014 Year-end*

^Dallas Rate includes 13% HOT and a 2% Tourism Public Improvement District fee.

Excluding Austin's approximate 8,000 Central Business District hotel rooms, the Average Daily Rate for Austin's remaining hotels for 2014 is \$116.16.

3. What is the current financial indebtedness and the status of payoff for the outstanding bonds?

The Convention Center has 3 outstanding revenue refunding bond issuances related to the Austin Convention Center facility. Revenue bonds are backed by the revenues from hotel occupancy tax and other revenues of the Austin Convention Center Department, not by property taxes. The total amount still outstanding on these bonds is approximately \$140

million. The bonds will be paid off in 2029. The combined annual debt service for these bonds is approximately \$15 million.

The consultant's Long-Range Master Plan did include an economic analysis to determine the financial feasibility of an expansion. Page 65 of the Consultant's main report estimates that, for the recommended expansion options, the net revenues, including Hotel Occupancy Tax, after operating costs, will be over \$70 million per year, with an estimated annual debt service cost for the expansion to be approximately \$34 million per year (shown on page 66 of the report).

The combined debt service of the outstanding bonds and the financing of the expansion of approximately \$49 million (assuming the current bonds remain in place in their current form) is adequately and appropriately covered by the projected revenues related to the expanded facility.

The planned financing strategy of an expansion does not include any funding from property taxes paid by the citizens of Austin. The financing of an expansion would be secured with a pledge of Hotel Occupancy Tax and the Austin Convention Center facility-generated revenue, both of which are paid by the visitors and event-holders who come to Austin.

4. What are the possibilities of partnering in or investing in a bigger sports facility with the University of Texas at Austin (UT) that would seat 25 thousand people versus their planned 12 thousand; does the lost seating capacity affect the tourism industry?

We do not have enough information related to the event and attendee data of the Erwin Center to do any analysis on the impact of a possible future smaller arena.

UT's attorneys, the City's Bond Counsel, and the parties' financial advisors would need to review the legalities and finances of this type of partnership to know whether it is legally and financially viable.

Other options that may be available for partnering with UT include consideration of the other types of funding mechanisms in Chapter 334 of the Texas Local Government Code such as facility admissions taxes, facility use taxes, and parking taxes. Each of these taxes and fees would require voter approval. Additionally, Travis County has the ability to request voter approval for a 2% hotel occupancy tax for a venue project. Each of these types of venue taxes would need to be reviewed by the Comptroller's Office, and any bonds for any project would need to be approved by the Texas Attorney General's Office. Each of these funding mechanisms would be separate from the City's hotel occupancy taxes, and would enable both the convention center expansion and another venue project to proceed to the voters.

See item 6 for additional information regarding Venues.

5. What are the unintended consequences of an expansion of the Convention Center and the impact on housing and affordability?

As indicated by the consultants, we have not found a study that addresses the question of housing and affordability. However, as the consultants highlighted during the presentation, the revenue generated by the visitor industry is a “clean revenue” that does not directly result in additional costs related to providing ongoing local government services to those visitors. It is important to note that since the financing of the Convention Center expansion will be secured by Hotel Occupancy Tax and Convention Center revenue, there is no direct impact to the property tax amounts assessed to the citizens of Austin.

Both the Austin Convention Center staff and our consultants’ industry experience and expertise indicate that some of the real consequences of not expanding are loss of market share, less revenue from sales tax, hotel occupancy tax, and alcohol beverage taxes, and lost jobs across the convention and visitor industry in Austin. The Leisure/Hospitality industry is the 4th largest industry in terms of employment in Austin, according to the Bureau of Labor Statistics. (http://www.bls.gov/eag/eag.tx_austin_msa.htm)

The recommended Austin Convention Center expansion would generate an estimated 100+ additional full-time Convention Center positions.

6. What else could be done with a 2% Hotel Occupancy Tax Venue Tax?

- The legal requirements relating to venues that can be funded with different types of taxes and fees are found in Chapter 334 of the Texas Local Government Code.
- The venues that may be funded with hotel occupancy tax are the ones listed in 334.001(4)(A), (B), and (C) of Chapter 334.
- More general information regarding different types of venues and the taxes and fees that may support these projects can be found at: <http://www.tml.org/p/2015%20June%20Venue%20Taxes%20BL.pdf>

Additional information related to the City of Austin’s current 2% HOT Venue:

The parameters of the current Venue are found in the bond covenants of the related bonds. Until those bonds are repaid **in 2029**, any change in the current structure may require approval by the bondholders.

Any assessment of using the 2% HOT for a venue that is not related to expansion of the Convention Center could not move forward until the outstanding bonds on the current venue are paid off or otherwise provided for.

Additional points for consideration:

Even with voter approval, a venue project requiring the issuance of bonds for financing would require a financial viability determination before bonds could be issued.

Additional points related to the Austin Convention Center's Master Plan:

To meet the full lending capacity requirements for the recommended expansion, initial financial forecasts indicate that the project needs to be funded by a combination of a 2% Venue HOT, the Austin Convention Center's 4.5% HOT assessed under Texas Tax Code Chapter 351, and the Convention Center's facility-generated. Both the 4.5% HOT and the facility revenue have prescribed uses under each of the funding source's respective legal framework described in previous communications provided to Council by the Law Department in response to Budget Question No. 53.

Estimated financing capacity of a 2% HOT Venue by itself would be about 1/3 of the financing capacity discussed in relation to the recommended Convention Center expansion.

7. What is the estimated breakdown between sales and property taxes generated by the visitor industry to the City's general fund?

Using the information obtained from the State that supports the amounts reported in their latest published report, we estimate that the tourism and visitor industry generates approximately \$30-35 million annually to the City's General Fund, mainly from sales and property taxes. Our analysis estimates that 70-75% of this number is attributable to sales tax, with 25-30% related to property tax.

See details of the calculation in **Appendix B** at the end of this Attachment.

8. Can we estimate what portion of the estimated General Fund revenue attributed to the Tourism industry is directly related to the Convention Center?

We are not able to definitively determine how much of the estimated \$30-35 million in General Fund revenue generated by the Tourism industry is directly related to the Convention Center. Based on the State's estimates, 22.6 million visitors came to Austin in 2014. Industry experience indicates that in terms of spending by type of visitor, convention and business visitors spend more than the leisure visitor, and the at the destination longer.

It is also important to note that, while not necessarily important to the General Fund revenue aspect of visitor spending, the typical timing of when Convention-related visitors are in town spending their money compared to the leisure visitors is very important to the Tourism and Hospitality industry. Convention visitors are typically in town from Sunday to Thursday, as opposed to the leisure visitor who is typically here Friday to Sunday. The business generated by the Convention visitor allows for the industry to employ more full-time staff than would otherwise be the case.

9. Provide the information that was sent to the Economic Opportunity Committee to the full Council.

See information in **Appendix C** at the end of this Attachment.

Austin Convention Center Long-Range Master Plan Presentation
 Follow-up Communication from the October 13, 2015 Council Work Session

Appendix A

Estimate of General Fund Impact Comparison of As-Is versus Recommended Expansion					
As Is - No Expansion	2014	2021		2031	
Estimated General Fund revenue generated by Travel Industry	35,000,000.00	45,500,000.00	(est 1.5 million added per year, based on review of State report)	60,500,000.00	(projected forward)
Hotel Room Revenue (from Vol II Consultant's report, page 90)	1,047,000,000	1,317,000,000		1,820,000,000	
GF/Sales Tax per Hotel Room Revenue	3.34%	3.45%		3.32%	
West Expansion - Non-Contiguous	2014	2021		2031	Estimated increase if expand:
Estimated General Fund revenue generated by Travel Industry	35,000,000.00	47,469,248.29		71,669,230.77	(a) 11,169,230.77 projected increase if choose recommended expansion option
Hotel Room Revenue (from Vol II Consultant's report, page 93)	1,047,000,000	1,374,000,000		2,156,000,000	336,000,000
GF/Sales Tax per Hotel Room Revenue	3.34%	3.45%		3.32%	
What's City's portion of property tax give-up on property recommended for expansion site? (from review of TCAD data and projections based on historical trends)		443,629.69		(b) 1,542,302.68	9,626,928.09 = (a) - (b) estimated net increase to City's General Fund

Appendix C

Austin Convention Center

Follow-Up Communication to the Economic Opportunity Committee

Memo and Attachment

TO: City Council Economic Opportunity Committee
Councilmember Troxclair, Chair
Councilmember Houston, Vice Chair
Councilmember Casar
Councilmember Pool

FROM: Mark Tester, Director, Austin Convention Center

DATE: September 25, 2015

RE: Austin Convention Center Long-Range Master Plan

In follow up to our presentation of our draft Long-Range Master Plan (Plan) at your August 24, 2015 committee meeting, please find enclosed additional responsive information based on your comments and questions following our presentation.

Also, attached are all of the reports that are related to the Plan, which include Volumes I and II of the Plan, as well as the Urban Land Institute Technical Assistance Panel Report. We hope you find the information useful.

As a result of Council Resolution 20141211-218, which is also attached for your reference, directing the City Manager to report back to City Council on the results of the Urban Land Institute's Technical Assistance Panel review of the Council-approved consultant's work on the Plan, we are bringing the Plan back to you on October 12, 2015 for consideration of acceptance and recommendation to the full Council. We are also planning on making the presentation to the full council on October 13, 2015, as well as taking an item to the full council on October 15, 2015, seeking support and adoption of the Plan as a long-term planning vehicle. To that end, if you need additional information from us before then, or would like us to meet with you to discuss this information, please don't hesitate to contact me at 512-404-4040.

xc: Mark Washington, Acting Assistant City Manager
Bob Lander, President, Austin Convention and Visitors Bureau

This is a follow-up to Committee comments/questions related to the Austin Convention Center Long-Range Master Plan (Plan) presentation that were not fully answered during the presentation.

1. How does the Austin Convention Center compare to other state capitals? (i.e., Sacramento, Indianapolis, etc.)

The consultants compared the Austin Convention Center to convention centers that we compete with on a regular basis (see pages 11-22 of Vol I of the Long-Range Master Plan). Those included:

- Henry B. Gonzales Convention Center, San Antonio, TX (HBGCC)
- George R. Brown Convention Center, Houston, TX (GRBCC)
- Gaylord Texan Resort & Convention Center, Grapevine, TX (GTRCC)
- Colorado Convention Center, Denver, CO (CCC)
- Music City Center, Nashville, TN (MCC)
- San Diego Convention Center, San Diego, CA (SDCC)

Square footage peer comparison includes:

	HBGCC	GRBCC	GTRCC	CCC	MCC	SDCC	ACC*
Exhibit Space (sf)	513,944	862,000	179,520	584,000	353,140	615,700	247,000
Ballroom Space (sf)	94,316	31,590	81,000	85,000	70,250	81,670	63,920
Meeting Space (sf)	114,133	101,943	42,000	100,000	81,350	96,110	55,800
Year opened	1968	1987	2004	1990	2013	1989	1992
Expansion	Yes, twice before, with 3 rd currently underway	Yes, 2001	No	Yes, 2005	No	Yes, 2001 and currently considered	Yes, 1999 and currently considered
Citywide hotel room inventory	45,031	77,768	79,329 (Dallas)	42,530	38,288	60,629	33,000, growing to 36,000 by 2017
2015 Population	1,327,407	2,099,451	1,197,816 (Dallas)	600,158	530,852	1,307,402	790,390

*ACC – Austin Convention Center

Below is a chart of comparative information for select convention centers located in state capitals.

As it relates to the national convention and trade show market, based on our experience, whether or not a city is the state capital has very little bearing on the site selection process for a convention. Given the size of the state of Texas, and the strong State Association business, many of which favor meeting in legislative years, the Austin Convention Center is at an advantage, but does not compete with other state capitals for that business. However, as noted in the Plan, facility size and hotel availability are among the top 5 determining decision factors for site selection for many Austin Convention Center events. Therefore, convention centers located in state capitals that are either much larger (like Atlanta’s at 1.3 million sf of exhibit space) or much smaller (like Sacramento’s at 137,000 sf of exhibit space) are not considered competitors of the Austin Convention Center.

	Atlanta GWCC	Indianapolis ICC	Phoenix PCC	Denver CCC	Nashville MCC	Sacramento	ACC
Exhibit Space (sf)	1.3M	566,600	612,000	584,000	353,140	137,000	247,000
Ballroom Space (sf)	168,517	62,173	188,800	85,000	70,250	25,000	63,920
Meeting Space (sf)	310,000	113,302	167,000	100,000	81,350	11,200	55,800
Year opened	1976	1972	1972	1990	2013	1973	1992
Expansion	Yes, 1985, 1992, and 2002	Yes, 2011	Yes, 2006 and 2008	Yes, 2005	No	1996 renovation	Yes, 1999 and currently considered
Citywide hotel room inventory	92,256	31,040	61,943	42,530	38,288	11,000	33,000, growing to 36,000 by 2017
2015 Population	420,003	829,718	1,445,632	600,158	530,852	466,488	790,390

2. Affordability issue – Downtown Hotel Rates.

Hotel rates are ultimately market-driven, and the downtown market has enjoyed both high occupancy and average room rates. The overall Austin market remains quite affordable, with the citywide average hotel room rate at \$135.77 (as of July 2015), giving families and visitors numerous economical options within the Austin city limits.

3. Stakeholder process – How will this expansion help people outside of downtown?

As discussed in the Plan, over the course of six months, the Gensler team's process included over 100 stakeholders representing the City, the business sector, industry leaders and professional organizations. The groups included representatives from City departments, key customers, the Hilton Austin, the Downtown Austin Alliance, and Capital Metro.

The convention and hospitality industry employs approximately 50,000 jobs. It is certainly likely that citizens employed in those jobs live in all 10 districts across the City. Expansion of the convention center will continue to grow that industry, resulting in even more jobs. The Austin Convention Center estimates an increase of at least 100 full-time positions related to the expansion, with additional temporary event-based positions as well. Choosing not to expand the convention center will ultimately result in a contracting market and likely lost jobs.

The visitor currently contributes an estimated \$30-35 million in sales tax revenue to the City's general fund. These funds are spent across all districts in the city per the budget passed by Council. As indicated in our presentation, the amount the visitor industry has contributed to the City's general fund has increased by an annual average of \$1.5 million since 2002. Expansion of the convention will continue to grow the visitor industry, bringing more in sales tax to the general fund. Choosing not to expand the convention center will ultimately result in a contracting market and likely decreased sales tax revenue to the general fund.

The consulting team led by Gensler analyzed the economic impact of the recommended expansion to hotel and Convention Center revenue. Volume II of the consultant's report estimates that an additional \$336 million in annual hotel revenue is expected by 2031 if the recommended expansion is completed, versus leaving the Austin Convention Center as is. The consultants estimate year 2031 as the stabilizing year after the expanded facility is in full operation. The consultants also estimate that the Austin Convention Center will see an increase of over \$17.7 million in combined facility revenue and Hotel Occupancy Tax collections if the recommended expansion is completed, versus leaving the Austin Convention Center as is, in that same stabilized year after completion.

Using the consultant's analysis, combined with the State's data used to estimate the convention and hospitality industry contribution to the City's general fund (via primarily sales tax from visitor spending), by the year of stabilization, it is estimated that the City will see an annual net increase of \$9.6 million in general fund revenue if the recommended expansion is completed, versus leaving the Austin Convention Center as is.